



# Fairfax County Internal Audit Office

Retirement Administration Agency  
Procurement Card Audit  
Final Report

March 2006

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## Executive Summary

Our review of procurement cards revealed that internal controls were adequate. Internal control procedures were well documented, a well designed separation of duties was in place, transactions appeared proper, and, in general, the Retirement Administration Agency (RAA) appeared to be in compliance with significant controls outlined in the County Procedural Memorandum (PM) 12-02. The following weaknesses were noted:

- A transaction log, which should be used to document all procurement card transactions, was not being maintained
- Internal control procedures in place had not been approved by the Department of Purchasing and Supply Management and the procedures did not comply with the requirements of PM 12-02

The above items were previously cited during a procurement and compliance review performed by the Department of Purchasing and Supply Management (DPSM) in March 2004. RAA was documenting transaction information on a Purchase Requisition Form. Subsequent to the audit, information was added to this form to meet all information required by PM 12-02 to be included on a transaction log.

## Scope and Objectives

This audit was performed as part of our Fiscal Year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of September 2004 through September 2005, and our audit objectives were to determine if the department:

1. Had developed written internal procedures in accordance with PM 12-02.
2. Followed the County rules and procedures for the use of procurement cards.
3. Had adequate internal control procedures in place and that these procedures were being followed by cardholders.
4. Transactions were reasonable, in line with policy, and did not appear to be fraudulent.

## Methodology

Audit methodology included a review and analysis of internal control procedures, procurement card expenditures and related accounting records of the department. Our audit approach included an examination of procurement card expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with County PM 12-02 *Use of the County Procurement Card*. Information was extracted from the Procurement Card Management System for sampling and verification to source documentation during the

audit; however, our audit did not include an independent review of the system controls. Our transaction testing did not rely on system controls; therefore, this was not a scope limitation.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors, and reports are available to the public.

## Findings, Recommendations, and Management Response

### 1. Procurement Card Log

A purchase log was not being maintained to track procurement card purchases. The agency did have a card log which was being used to document card sign in/out processes; however, this log did not indicate purchase information.

Procedural Memorandum No. 12-02 requires that all agencies maintain a system that tracks card transactions as they occur. Agencies may use an appropriate manual or electronic log to record both debit and credit transactions. Entries must be contemporaneous so that they provide up-to-date information on funds expended and should identify the card user. In addition, the agency is required to reconcile all transactions to the purchase log and actual receipts to verify that all charges are proper and the correct amounts have been charged. Not having a purchase log in place increases the risk that unprocessed charges and credits will go undiscovered.

**Recommendation:** The Retirement Administration Agency should maintain a transaction log which will accurately reflect all procurement card transactions, including debits and credits. The printed log should be reconciled weekly or monthly to bank information and actual receipts. This process should be evidenced with the initials of the reconciler/reviewer and dated.

During the course of the audit, RAA modified their Purchase Requisition Form to include purchaser/card user information. This modification increased accountability associated with card usage. The implementation of the new form compensates for the lack of a transaction log in that the form requires more detailed information and more stringent approval procedures. Thus, controls over monitoring and reconciling card usage now appear adequate and additional follow-up is not required.

**Management Response:** None required for this finding.

### 2. Procurement Card Internal Control Policies and Procedures

While the Retirement Administration Agency had developed written internal control procedures, the procedures were never approved by DPSM due to several areas that needed to be clarified. The agency had first developed procedures in 2001 and

submitted them to DPSM for review. DPSM returned the procedures with notes regarding areas that needed to be addressed. The procedures were not updated and thus never approved. In November 2005 the agency submitted revised procedures to DPSM for approval. DPSM provided the results of their review and again noted many of the same areas that need to be clarified. The revised procedures did not fully address the following requirements of PM 12-02:

- maintenance and reconciliation of a transaction log
- identification of and responsibilities assigned to the card custodian
- clear identification of a separation of duties
- records retention
- the employee acknowledge disclosure form

Per Procedural Memorandum No. 12-02, the agency procedures should clearly define all procurement card related responsibilities and assign them to employees by position/title. Further, procedures should include a copy of the employee disclosure form and the transaction log.

**Recommendation:** The Retirement Administration Agency should update the procedures in accordance with PM 12-02. Revised procedures should be submitted to DPSM for approval.

**Management Response:** Procedures have been updated and provided to DPSM. We are anticipating that these procedures will suffice but if not they will be revised to suffice. These procedures should identify the responsibility of the card custodian, separation of duties, and record retention. The employee acknowledgement disclosure forms have been provided to DPSM. We have started a procurement card log effective February 1, 2006.

This item will be complete upon final review and approval of the revised procedures by DPSM.